

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION INTO THE FEASIBILITY)	
OF MERGING KENTON COUNTY WATER DISTRICT)	
#1, CAMPBELL COUNTY KENTUCKY WATER)	CASE NO. 90-020
DISTRICT, AND BOONE COUNTY WATER AND)	
SEWER DISTRICT)	

O R D E R

This investigation was initiated by the Commission pursuant to KRS 74.361(2) which states:

The public service commission of Kentucky is authorized and empowered to initiate, carry out, and complete such investigations, inquiries, and studies as may be reasonably necessary to determine the advisability as to the merger of water districts. Prior to ordering a hearing with reference to the merger of any water district into one or more additional water districts, the public service commission shall cause to be prepared in writing a feasibility report and study regarding the proposed merger, containing such studies, investigations, facts, historical data, and projections as in the circumstances may be required in order to enable the commission to formulate a proper decision regarding such merger. (Emphasis added.)

To formulate a proper decision regarding such merger, the Commission determined it was necessary to have as a part of the mandated feasibility report a management and operations audit performed, pursuant to KRS 278.255, of the utilities being considered for merger. Therefore, on April 12, 1990, the Commission ordered that, pursuant to KRS 278.255, a competent, qualified, and independent firm be retained to audit the management and operations of Boone County Water and Sewer District

("Boone District"), Campbell County Kentucky Water District ("Campbell District"), and Kenton County Water District No. 1 ("Kenton District") and prepare a written audit report on the feasibility and advisability of merging two or all of these water districts. It now addresses the issues concerning the cost of such an audit.

On April 24, 1990, the water districts advised the Commission that they "will not be responsible for any cost associated with or incurred by the Commission or its consultant" as a result of the management and operations audit.¹ They cited no authority to support their position.

This position clearly contradicts KRS 278.255 which states in part:

When the commission orders an audit to be performed by an independent firm, the commission shall select the audit firm, which shall work for and under the direction of the commission, with the cost to be borne by the utility. The commission shall include the cost of conducting any audits required in this section in the cost of service of the utility for rate-making purposes. (Emphasis added.)

KRS 278.255(3). This statute expressly requires the audited utilities to bear the cost of the audit. It makes no reference to other methods of financing an audit. Accordingly, the Commission intends to proceed with the proposed audit with its costs to be borne by the water districts.

¹ Water Districts' Response to Draft Request for Proposals at 1.

The Commission next turns to the issue of cost allocation. The operations audit ordered herein differs from previous audits in that it involves more than one utility. Costs must be allocated among the audited utilities. As KRS 278.255 is silent on this issue, the Commission has sought to devise a fair and equitable method of allocating the audit's cost. After reviewing several alternatives, the Commission finds the following methods will achieve this result:

- Equal division. Under this method, the cost of the operations audit would be equally divided among the water districts. Each would pay one-third of the cost.

- Number of customers. Costs would be allocated on each water district's share of the total number of customers served. Based on the number of customers served at the end of the 1989 calendar year, Kenton District under this method would pay 58.9 percent of the total cost, Campbell District would pay 30 percent, and Boone District would pay 11.1 percent.²

- Volume of water sold. Allocation would be based on each water district's share of total volume of water sold in the 1989 calendar year. Under this method, Kenton District pays 76.1

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	<u>Customers</u>	<u>Percentage of Cost To Pay</u>
Kenton District	32,279	58.92
Campbell District	16,431	29.99
Boone District	<u>6,077</u>	<u>11.09</u>
	54,787	100%

percent of the audit's costs, Campbell District pays 17.4 percent, and Boone District pays 6.5 percent.³

- Annual revenue. Allocation would be based on a water district's share of the water districts' total annual revenues for the 1989 calendar year. Under this method, Kenton District pays 59.5 percent of the audit costs, Campbell District pays 29.9 percent, and Boone District pays 10.6 percent.⁴

Before making its final selection, the Commission is of the opinion that the water districts should have the opportunity to comment on the proposed methods and to submit alternative proposals. These comments will be carefully considered by the Commission in fashioning an appropriate cost allocation method.

IT IS THEREFORE ORDERED that Kenton District, Campbell District, Boone District shall have 14 days from the date of this

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	<u>Gallons</u>	<u>Percentage of Cost To Pay</u>
Kenton District	7,054,418,900	76.09
Campbell District	1,615,938,400	17.43
Boone District	601,257,352	6.48
	<u>9,271,614,652</u>	<u>100%</u>

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	<u>Revenue</u>	<u>Percentage of Cost To Pay</u>
Kenton District	\$ 8,329,169	59.51
Campbell District	4,182,476	29.88
Boone District	1,484,414	10.61
	<u>\$13,996,059</u>	<u>100%</u>

Order to comment on the cost allocation methods proposed herein and to submit their own proposals for allocating the cost of the operations audit.

Done at Frankfort, Kentucky, this 25th day of May, 1990.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director